

## Utilization Report

We have included Segal's Utilization report in a sealed envelope. These materials should be considered confidential and not released to the public.

## Comprehensive Response

### a. Address services required specifics

#### 1. Review existing programs and identify/make recommendations for changes to make them more cost efficient, plan provisions, alternative delivery systems, employee contributions, or other areas.

With health benefit cost increases currently outpacing the Consumer Price Index by a large margin, and prescription drugs rising at an even higher rate, public employers must balance between increased subsidies to employees that exceed fiscal year budgets and increased employee contributions that consume the employee's entire pay increase. This environment calls for a comprehensive approach to formulating plan design strategies that include data analysis, benchmarking, demographic assessments, vendor management and knowledge of emerging industry trends. Segal is experienced in working with public entities that face these challenges.

Many employers (particularly public sector employers) operate extensive benefit plans without having an overall set of benefit objectives. This is often the case because plans have grown up over long periods of time and are often administered in different departments or agencies under different political oversight. As your consultant, we believe it is our role to help you identify the key decision making areas and focus the attention on having a consistent set of objectives.

Segal works with clients to develop health care benefits that meet the goals of the client as well as the needs of employees in the most cost-effective manner. Segal does not offer pre-packaged, off-the-shelf solutions for benefit plan designs. We work closely with the client to develop and design benefit programs that best suit the needs of the client, taking into consideration the demographics of the employee, dependent and retiree populations, plan experience, budget constraints, and the client's benefit philosophy and goals.

The foundation of effective plan design management is to have complete and accurate financial and demographic information concerning all benefit programs. Your current employee population has certain predictable behavioral characteristics and costs under various design alternatives. With this information, Segal can:

- Identify the competitiveness and relative value of your current benefit package and alternatives;
- Determine whether benefits utilization differs for different demographic segments;
- Accurately project future costs; and
- Avoid benefit plan initiatives that might unnecessarily create human resource issues.

To perform an in-depth analysis of the County's benefit programs, we would collect cost and utilization experience data. This will ensure that a new benefit approach is based on facts rather than assumptions. Our analysis would focus on two fundamental sources of data:

- **Plan participation**—This step includes a detailed inspection of employee demographics. Specifically, it includes participation by plan, trends in participation patterns, age and gender distribution of employees and dependents, and employment status. We would develop and integrate a demographic profile of the emerging workforce. Using trend analysis, we can simulate the financial impact on the County's benefit program objectives.

- **Price and utilization**—This step includes a comprehensive and focused review of claims experience. The objective of the analysis is to identify the key factors driving the increases/decreases in plan expense.

We would evaluate alternatives in terms of anticipated results and measure them against the County's benefit philosophy and program objectives. We would also address the following issues in overall benefit program strategy:

- Competitiveness of current benefit plans to prevailing practices;
- Cost effectiveness of the current drug program manager;
- Appropriateness of certain benefit provisions;
- Projected cost of the model benefit plan compared to the current arrangement;
- Available funding techniques and the appropriateness of each to the County's strategic goals and budget, considering cost, cash-flow and risk features;
- Type and format of management reports that will target areas for effective long term benefit strategies;
- Type of service delivery model; and
- Performance standards and guarantees that should be included in vendor contracts.

We would prepare a written report, outlining our review methodology, observations and findings from the analysis. We would make concise recommendations for changes or enhancements to the program and outline the steps necessary to effect the changes. Where appropriate, we will introduce the concept of Total Health Management as a discipline to help the County organize its existing programs to help hold down health costs, and to implement new initiatives that support more efficient utilization to drive lower benefits cost increases and even reductions.

## **2. Provide assistance in the development of RFP documents, analyzing proposals, summarizing results, assist with interviews and necessary duties in the exploratory process.**

Each year Segal conducts hundreds of competitive procurements to help our clients select vendors for all types of benefit programs. Each of these bid processes involves surveying the available plans in the market place, comparing the benefits coverage offered by each plan and establishing relative values among the benefits, analyzing the cost of plans and negotiating with carriers to obtain the best rates available for our clients. The expertise gained from over 60 years of analyzing health and welfare benefit programs is the same expertise that will be applied to assist the County in its procurement processes. From our work with the County over the last two to three years in conducting bid processes for your Life Insurance, Disability benefits, and Dental benefits, we will bring direct experience with your current programs in a number of areas.

Through our consulting experience with many public sector jurisdictions, we are prepared to take on as much or as little of the procurement process as appropriate. We have worked with numerous public sector clients where our role was limited only to development of specifications and review of finalist vendors. We work with many clients where we are closely involved with the jurisdiction's purchasing or procurement division process from start to finish. This close coordination allows us to help you find the appropriate balance between conducting the bid process and providing expert technical and financial analysis

**Bid Process**—We will assist the County in conducting procurements for insurance carriers and third party administrators for its benefit plans and programs, and will be available to assist staff throughout the entire procurement process as needed.

We will first meet with the County staff to identify key issues to be addressed throughout the procurement, and assist in prioritizing those issues and evaluation factors. We will work with staff in



developing a proposed plan design to take into account current “best practices” among other key jurisdictions and other employers. Based on the approved plan design, we will prepare a detailed set of technical questions and financial elements for the request for proposals (RFP). The RFP would also include:

- Details of the requirements to be met by the offerors;
- Instructions for bid submission;
- Detailed information about your current and proposed plans of benefits;
- Summary of employee demographics;
- Recent claims experience and rate history; and
- Detailed list of the services the bidder is expected to perform.

As your consultant, Segal will be available to assist in all phases of the procurement process, including:

- Identifying key evaluation points and developing evaluation documents for use by the selection committee;
- Identifying vendors that should be included in the list of potential benefit providers as part of the bid solicitation process;
- Preparing for and conducting the pre-bid conference for each procurement process, as well as serving as a technical resource at the pre-bid meeting and helping to interpret the nature of each question from vendors and prepare answers; and
- Meeting with the selection committee to discuss issues related to the evaluation of the bid and to prepare the reviewers for the likely range of responses they may see on key criteria.

When the bids are received and opened, we should receive a copy of the technical proposals. The consultant reads and evaluates each proposal in the same manner as the County staff. Based on the County’s evaluation procedures, we will prepare an evaluation of the technical proposal. We will participate in the discussion about the strengths and weaknesses of the each proposal and provide expert advice to the selection committee. We can also review program administrators’ service agreements and proposals, and assist in determining the administrators’ ability to deliver quality service.

Once the top providers or delivery systems have been identified, we will engage in a detailed evaluation of their respective proposals. Our analysis will identify whether the provider meets federal, state or local regulatory requirements. We will consider the financial stability and solvency of the provider. In addition, we will look closely at how effectively the provider handles customer service for participants in the plan, including how a participant accesses the vendor through its call center operation. We will look for evidence of superior client service, particularly in the vendor's day-to-day interactions with the client's benefits personnel. We will review the proposed systems for handling the program and look for flexibility in adjusting to the County’s operating systems (payroll, personnel and benefits system). We will assess the vendor's ability to handle claims processing in a timely and accurate manner. We will also evaluate the vendor's ability to provide appropriate management reporting, including the flexibility to produce any special ad hoc reports that may be needed by the County in the future.

The consultant also receives the financial proposals, conducts a detailed price analysis of those bids. We analyze the quotes over each year of the contract period to reach full comparability in the price quotes. Where a bidder has proposed a price or rate method that does not follow the prescribed methodology or format, we will work with the Procurement Officer to obtain the quote in the proper format. Where there are differences among bidders in the services covered by the quote, we will analyze those differences and apply factors and assumptions to maintain consistency across all offerors’ proposals. As we analyze top provider proposals, our actuaries will point out alternatives for

funding as proposed by the providers and will help the County reach a decision on the ultimate funding approach for the program.

Segal will be available to assist in conducting interviews of the finalists. During those interviews, we will seek to obtain answers to questions about each vendor's proposed services, which will help the County in making the final decision. We will also assist in any final negotiations regarding services to be provided, including analysis of Best and Final Offers.

We will provide a written summary report with detailed information on our evaluation of the responses to the RFP, and recommendations for carrier selection and program design. We will also be available to assist in the review of contracts and other documents required to implement the changes to the benefit program and in monitoring the vendor's progress toward implementation.

Also, Segal has greatly improved the efficiency of the RFP process by having an electronic on-line or eRFP. We will assist the County with the eRFP process on its insurance products. The eRFP allows us to customize the RFP to meet all of the County's specification. In our initial meeting with the County, we will distribute the prior RFP documents and take notes on all suggestions and comments that would be pertinent to preparing the new version. We will return to the office and proceed to make the needed changes.

Our initial meeting with the County will also give us an opportunity to review and discuss benefit strategies. Following that meeting, depending on the direction we are given by the County, we will prepare cost projections for any of the suggestions that the County feels it may want to implement. Once final decisions are made as to how these changes will affect the RFP, we will then proceed to incorporate these changes into the RFP, and will work with the County's Human Resources and Purchasing Departments to make the RFP ready for publication and distribution by the County will make recommendations and prepare bid specifications for the County.

**Implementation and Communication Strategy.** We will develop a detailed implementation process for the new plan. This plan will take into account both the County's specific needs and the new vendor's commitment for delivery of services. The implementation plan will become a yardstick against which the implementation will be managed and measured.

We will assist the County in developing a detailed communications strategy for the new program. We will meet with the County's staff and provide a discussion list of possible approaches to announcing and communicating the plan. We will provide samples and examples of how other plan sponsors have communicated similar plans to a widely distributed work force.

The communication strategy must take into account the logistics of communicating with a diverse geographic workforce. It also must fit perfectly with the accepted methods of communicating benefits information to your employees. We will make effective use of communication channels already in effect.

We will meet with the County to review the implementation and communication strategy statements and to troubleshoot potential obstacles to a smooth program rollout. We will lead an open discussion on the feasibility of this proposed strategy and how the strategy could be implemented. Our intent is to collaborate with the County to achieve a communication strategy that will accomplish its goal without undue disruption to the County's normal communication channels.



## **PHARMACY BENEFIT MANAGER BID PROCESS**

Our general PBM procurement process includes the following major steps, which will be tailored specifically to the County's needs:

### **1. Discuss plan design and RFP parameters**

Through our previous work with public entity consortiums, Segal understands the plan designs, administrative issues and customizations that vendors need to understand and be able to deliver in order to properly service participating employees and their dependents for multiple entities. We will review participant claims data, demographics and current administrative processes to develop a basis for future financing and administration of the program. We will discuss these issues with the County and help to establish priorities, taking into account current "best practices" among other similar employers.

### **2. Prepare technical specifications**

We will prepare a draft set of detailed technical questions and financial elements for the RFP, including:

- Requirements to be met by the offerors;
- Instructions for bid submission;
- Detailed information about the County's current and proposed plans of benefits;
- Specific administrative and reporting needs;
- Summary of employee demographics;
- Recent claims experience and rate history;
- Detailed list of the services the bidder is expected to perform;
- Questionnaire designed to identify key strengths and weaknesses of each vendor; and
- Format for submitting financial proposal components that will allow all bidders to be compared on a common basis.

Upon review and approval by the County's selection committee, these technical specifications and questions will then be finalized and we will develop the full RFP that will be released. We will assist in releasing the RFP and resolving any questions that a potential vendor may ask. Segal will be available as needed to provide any clarification for the selection committee.

We will also assist in identifying vendors that should be included in the list of potential PBMs, preparing for and conducting the pre-bid conference, serving as a technical resource at the pre-bid meeting, as well as helping to interpret the nature of each question from vendors and preparing answers.

### **3. Provide technical and analytical assistance during the bid process**

Segal will assist the selection committee throughout the procurement process with evaluation of the vendor proposals, advice on relative strengths and weaknesses of proposals, technical resource assistance, guidance on best practices, analysis of specific issues, and other support through brief phone conversations and e-mails as requested.

Segal will work closely with the selection committee and assist in all phases of the procurement process, including:

- Meeting with the selection committee to discuss issues related to the evaluation of the bid and to prepare the reviewers for the likely range of responses they may see on key criteria;
- Developing an evaluation tool that will enable a uniform ranking of each vendor's proposal;

- Training the selection committee on the evaluation tool in order for it to be meaningful in this process;
- Screening proposals initially for responsiveness to the RFP and ability to meet the minimum requirements for the program, and determining five (5) finalist proposals;
- Reviewing and evaluating finalist proposals to assure completeness and accuracy;
- Verifying that key evaluation points were answered in the finalist proposals and evaluated in a uniform manner;
- Reviewing financial proposals;
- Providing a written summary report with detailed information on our evaluation of the responses to the RFP;
- Reviewing the analysis of finalist proposals to determine that all strengths and weaknesses found by the committee have been verified or resolved;
- Reviewing program administrators' proposed service agreements, and assisting in determining administrators' ability to deliver quality service;
- Assisting in conducting interviews with the finalist carriers;
- Assisting the selection committee in negotiating services to be provided by the PBM, including analysis of a Best and Final Offer;
- Reviewing the selected vendor's proposed operating contract once the award is determined for compliance with its technical and cost proposals.

As you are aware, dramatic market changes have emerged with the PBM industry over the last few years. More recently, there has been a great deal of activity in the PBM marketplace. As the products and services reach maturity, PBMs have entered into a highly competitive cycle to attract membership. In addition, the highly automated services associated with delivery of prescription drugs have reduced the cost to provide PBM services, thereby reducing competitive barriers to entry. As a result, PBM contract and financial terms have become increasingly more attractive to the large health benefit plans that know how to use their leverage.

At the same time, PBMs have been merging into larger provider organizations. This makes selection of the best PBM for the particular employer key as a PBM merger may or may not be advantageous to a client, given the various plan designs and the need for stability in this important benefit.

Segal's approach to competitive bidding of pharmacy benefit management services helps to ensure that you get the most efficient contract and delivery terms from your Pharmacy Benefit Manager (PBM). Our process goes well beyond simple bidding and price analysis, extending to the identification of strengths and weaknesses and cost efficiencies unique to each bidder.

### **Project Objectives**

We anticipate that the PBM procurement process will include:

- Discussion of specific program design, including suggested changes to improve the perceived value of the program as well as the cost management efficiency inherent in the PBM concept;
- Development of technical and cost questionnaires for the RFP; and
- Assistance to the selection committee in the review, analysis and evaluation of technical and cost proposals received from qualifying bidders.

The PBM selected for this contract must be able to:

- Support a formulary that encourages the lowest cost drugs net of rebates in each drug classification;
- Properly manage costs through the use of utilization review, generics and mail order; and



- Properly administer the program to prevent oversupply of prescriptions and prevent abuse of certain drugs.

### **Technical Questionnaire Criteria**

Segal will work with the County's selection committee to identify and prioritize the selection criteria to be used in the RFP development and evaluation process. The criteria may include:

- Cost including rebate levels;
- Flexibility in plan design;
- Desired level of customer service;
- Clinical management programs;
- Disease management experience;
- Pharmacy network availability;
- Integration capabilities with the County's medical benefit administrators; and
- Systems/data administration including availability of state-of-the-art web-site programs.

Segal has developed a comprehensive 9-section RFP questionnaire and quote grid that will be adapted for County's PBM RFP. We will work with the County's selection committee to place relative weightings on the various categories of selection criteria that are of most importance to you. Our RFP structure is uniquely designed to differentiate services and financial offers. The RFP content requires PBMs to go beyond simply quoting discounts, rebates and fees to address underlying acquisition costs, drug mix and promotional activity that impact current program costs and long term trend rates.

Our approach is to ask for comprehensive detailed information from each PBM. That information is used to properly evaluate the costs and services of each PBM. On the cost side, we have found that there are many ways that PBMs hide their fees. As an example, a PBM may quote a 65% discount off Average Wholesale Price (AWP) for Maximum Allowable Cost (MAC). However, we have found a wide variation in the percentage of generic drugs with a MAC price for each PBM. Some PBMs only have 65% of generic drugs with a MAC price while others have above 95%. For a client of the County's size, this can have a large economic impact.

We will be able to perform a comprehensive analysis that scores and lists the strengths and weaknesses of each bidder in each category ultimately agreed to by the selection committee, including:

- Financial Terms/Program Costs;
- Administrative and Member Service;
- Organizational Stability and Experience;
- Network Management;
- Formulary Management;
- Network Access;
- Clinical Care and Support; and
- Performance Guarantees and Contract terms.

### **Project Timeline**

Depending on the County's procurement rules and processes, a comprehensive competitive PBM bid of this size often requires three to five months to complete from the release date of the RFP. Segal is prepared to discuss these issues with the County's benefits and procurement staff and we will then meet whatever timeline is agreed upon as feasible under your procurement policies.



Segal has conducted a number of pharmacy benefit manager bid processes in recent years, including ones for the State of Maryland, the Pennsylvania Public School Employees' Retirement System Health Options Program, the University of Virginia and the State of Delaware.

## **LONG TERM CARE**

### **Experience with Designing Long Term Care Solutions for the Group and Individual Marketplace**

Since Segal did its first Long Term Care project in 1987, we have worked with numerous state and local governments, major corporations and associations ranging in size from under 500 lives to over 400,000 lives. In addition to designing plans and performing competitive searches, we have (1) helped negotiate comprehensive administrative agreements outlining key elements of performance (2) drafted marketing plans, (3) assessed administrative and customer service systems, (3) reviewed reserve assessments, (4) monitored annual experience accountings, (5) reviewed claim determinations and claim support services and (6) performed claim audits. In addition, we have worked with clients to unbundle carriers' services when such an approach added value. For example, one client invests its own reserves and another considered a self-funded arrangement (for whom we did the pricing). More specific to the objectives noted in your RFI, we helped a national association with over 50,000 members assess the marketing effectiveness of its Long Term Care Plan. We did a financial analysis as well as a review of terms and features. We also reviewed how it was marketed and distributed and recommended the program be changed from a group to an individual platform to support efforts we felt were critical to success.

### **Analysis of Long Term Care Options**

Long Term Care insurance is unique in that many individual products have the potential to be more cost efficient than group products. This is because some of the key drivers of cost, like lapse rates and discount factors, might be more aggressive in individual products. Further, based on the nature of the population in the group to be offered the coverage, the typical marketing and distribution services included in-group and individual products can be expected to have an effect on participation as well as pricing. Since the participation assumption is an element of pricing as well the distribution cost factor, this is an important analysis. We are also finding that the industry is in the process of updating its view of these elements and it is timely to revisit this issue based on the newest product generation.

We agree that such an analysis is timely and important. However, we see our role as consultants to not only help clients choose between these two alternatives but to assess their needs and craft a program that builds unique capacity based on all available resources. Regarding Long Term Care Plans, we have helped clients select "the best of both worlds" based on the principle that the optimal set of pricing elements and administrative services will maximize participation and maximum service thereby maximizing value. To help in this analysis, we work with our clients to assess the "natural level of participation" and work with the client, the carrier and various other support services to see that that level can be obtained as efficiently as possible. In other words, while there are legal elements to both platforms, we see either being available to our clients. Indeed, we have unbundled carriers' services and have worked on self-funded Long Term Care Programs as well as programs where reserves are separately invested and support services are separately offered.

Our compliance department will help address the legal, compliance and regulatory issues of selling Long Term Care Insurance, but only in support of legal counsel. Segal is not engaged in the practice of law.

Regarding assistance with a search for capacity, be assured that we (1) have sufficient market knowledge to provide a list of potential bidders with specific contact information at each firm, (2) can consult with you to develop a set of specifications regarding plan design, underwriting, distribution and internal pricing to attract competitive proposals that can be objectively analyzed and (3) can support you in your analysis of submitted bids (this is a common approach taken by our clients where we might be asked to perform a technical analysis of certain elements in partnership with the client who performs more general comparisons).

As you consider the different approaches needed to market to the general membership, our experiences in consulting with clients and working with carriers and specialized marketing and administration services will prove to be particularly helpful.

Among the many innovations Segal has developed over the years is our approach to competitive bidding. Many of the practices employed by brokers and consultants as they help clients search for insurance, administrative capacity and other services were developed by our firm. We pride ourselves on the validity of our services in this area. We work hard to make sure they remain valid as new products and services come to market.

In addition to checking client references to confirm this, you may want to discuss our approach to assisting clients with their searches with representatives of the firms our clients ask to bid. We pride ourselves on making the procurement process rational and being “firm but fair” with providers and feel this results in measurable value added to searches in which we are involved.

## **VOLUNTARY BENEFITS**

Segal has unique experience enhancing voluntary benefits that an organization offers its members. We can help reduce costs and improve members’ satisfaction by:

- Reducing unnecessary margins;
- Increasing customer service and claims paying efficiencies; and
- Customizing plan designs to meet the individualized needs of your population

In today’s environment, benefit plan sponsors are no longer expected to fully cover all economic perils for employees. Aside from the financial inability to meet rising costs, the needs of the current workforce are more diverse than in the past. Further, some forms of protection are more effectively provided when they are funded by employee contributions or by benefit plans that allow employees to customize features to meet their unique needs. Although many sponsors offer employees access to voluntary programs, optimizing those programs can enhance the value to employees and makes the programs more meaningful.

In addition to providing general consulting on plan design, funding and administration and oversight of all aspects of Voluntary Benefits, Segal is pleased to offer the following specialized services:

- **Procurement through competitive bidding** – Our 50 plus years of discipline in competitive bidding for group plans has been adopted for voluntary plans yielding unprecedented success, especially for life insurance as the industry has been reducing margin. Our uniform, detailed specifications allows for the careful study of the cost and value of all internal pricing elements.
- **Compliance Services** – Voluntary plans often place more responsibility on the sponsor than intended. Segal’s review of contracts, practices, and protocols will evaluate plan sponsors’ exposure and recommend alternatives to mitigate an unintended compliance risk.